

PLEASE READ—IMPORTANT INFORMATION ABOUT AN INCREASE IN YOUR MAY BILL

To deal with the rapid changes in fuel and purchased power costs, Arizona Public Service Company ("APS" or "Company") requested authorization from the Arizona Corporation Commission ("ACC" or "Commission") to pass on fuel and purchased power costs beyond those in its base rates through a Power Supply Adjustor (PSA).

APS has accumulated a very large balance for uncollected fuel and purchase power cost because the amount it was allowed to collect for these costs was significantly lower than what it was paying for them.

After a rigorous analysis and careful consideration of all the evidence presented, the ACC approved a PSA surcharge and an interim fuel adjustor charge to become effective in May 2006. The PSA surcharge and interim adjustor are designed to partially reimburse APS for money it has already paid for unprecedented and sustained high fuel (primarily natural gas) and purchased power costs in 2005 and what APS projects it will incur in additional charges for 2006. APS does not profit from this increase as the monies collected will be used solely to pay down fuel costs.

The PSA surcharge will remain in effect until the Company collects \$15.3 million dollars or it has been in place for one year, whichever comes first.

The interim adjustor is only temporary in nature. It and any additional outstanding fuel expenses will be reviewed as part of the Company's pending general rate case, which is scheduled for hearing in October. The relief granted by implementing the interim adjustor charge if made permanent in the APS general rate case will reduce the Company's request for permanent rate relief from an additional 21% increase (as previously noticed to customers) to an additional 13 % increase.

The interim adjustor also helps to maintain the Company's financial strength, so it does not incur higher interest rates by lending institutions to finance Arizona's dynamic growth and maintain the high reliability standards our customers have come to expect. The implementation of the interim adjustor reduces the amount of interest the ratepayers will pay by approximately \$4,000,000 and retains the sharing requirement that makes APS stockholders pay a portion of the higher fuel cost as well. And, it is important for customers to know about the higher cost of energy so that they can manage their use of electricity as efficiently as possible.

The combined effect of the PSA surcharge and the interim fuel adjustor charge beginning in May 2006 is 8.2% or \$8.78 a month for the average residential customer using 1,162 kWh per month. Individual customer impact will vary depending on the amount of energy used, the relative efficiency of the home or business and the personal comfort level desired by the customer.

The PSA charges do not apply to APS customers who qualify for the company's E-3 and E-4 Energy Support rates.

We understand higher prices aren't welcome news. As part of this process, APS will continue to implement cost-effective measures to control its cost of service and will examine all of its expenses, including discretionary spending. In authorizing the interim adjustor, the ACC specifically stated its expectation that APS should:

- Look at cutting expenditures such as "branding" related advertising, sports sponsorships as contracts come up for renewal, out-of-state travel, and other discretionary expenses.
- Cooperate with ACC Staff to analyze off-system sales (sales of energy to other utilities) to reduce costs for ratepayers.

- Explore the potential for automatic enrollment in low-income discount programs for customers who already receive public assistance like food stamps and Medicaid.
- Closely scrutinize certain bonuses and employee incentives in 2007 to see if that money could be better utilized to offset increased costs.
- Conduct a study on the effectiveness of APS' natural gas purchasing and hedging practices to see how the company stacks up against its peer utilities.
- Continue exploring natural gas storage projects through which APS could buy bulk natural gas and store it until needed.

The Company is increasing its already substantial conservation efforts to help customers manage the costs they must pay for electricity. More information about these programs as well as advice on ways to save energy and reduce monthly bills can be found at aps.com or by calling the company at 602-371-7171 or 1-800-253-9405.